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E FOR THOMAS PIERCE, WHA FOR WHA/BSC AND WHA/EPSC
PASS NSC FOR JOSE CARDENAS
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
PASS USTR FOR SUE CRONIN AND MARY SULLIVAN
TREASURY FOR ALICE FAIBISHENKO
USDOC FOR ALEXANDER PREACHER AND JOHN ANDERSEN
US SOUTHCOM FOR POLAD

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SUBJECT: Argentina Economic and Financial Weekly for the week ending
January 12, 2007

¶1. Provided below is Embassy Buenos Aires' Economic and Financial
Review, covering the period January 8 - 12, 2007. The unclassified
email version of this report includes tables and charts tracking
Argentine economic developments. Contact Econoff Chris Landberg at
landbergca@state.gov to be included on the email distribution list.

Weekly Highlights

- Central Bank earns \$1.4 billion on investments of official
reserves.
-- Central Bank successfully issues ARP 332 million of new
three-year Nobacs.
-- GoA increases export taxes on soy and soy-products to subsidize
local consumption, avoid price increases.
-- Planning Minister De Vido receives ARP 1.2 billion additional
funds to subsidize energy and transportation.
-- GoA allows 15% electricity tariff increase for commercial and
industrial users.

Banking and Finance

Central Bank earns \$1.4 billion on investments of official
reserves.

¶2. The Argentine Central Bank (BCRA) announced that it had earned
\$1.4 billion in 2006 on its investment of reserves, representing a
5.7% annual yield. According to the BCRA, the positive result was
due to three factors: the extension of maturities of its
investments, currency diversification (especially EUR and JPY) and
gold investments. A top BCRA official privately stated to Econoffs
on January 11 that the BCRA could have earned a higher yield -- in
the 6.00 to 6.10% range -- if it were free to invest the reserves
without fear of attachment by holdout bondholders. As of January 5,
BCRA reserves stood at \$32.3 billion.

Central Bank successfully issues ARP 332 million of new three-year
Nobacs.

¶3. The BCRA received ARP 3.0 billion in bids at its January 9 Nobacs
auction, during which the BCRA introduced its new 3-year, fixed and

variable rate Nobacs. Prior to this, Nobacs' longest maturity had been two years. (Note: Nobacs are medium-term paper, denominated in pesos or dollars, which the BCRA issues to manage liquidity). The BCRA accepted only 11% of bids, issuing ARP 324 million of variable rate Nobacs and ARP 8 million of fixed rate Nobacs (with a coupon of 8%). The yield on the fixed rate Nobacs reached 11.95%, and on the variable rate Nobacs stood at 12.20%. Banks' strong participation guaranteed the success of the auction. They find the variable rate Nobacs especially attractive as a hedging tool against increasing interest rates. The introduction of the three-year Nobacs will also allow the BCRA to extend further the average life of its portfolio, which currently stands at 350 days. (Note: The BCRA extended this by 40% in 2006, from 250 days).

Economic Policy

GoA increases export taxes on soy and soy-products to subsidize local consumption, avoid price increases.

¶4. During a January 11 press conference, Minister of Economy Felisa Miceli announced that the GoA would increase export taxes on soy and soy products by four percentage points to 27.5% and 24%, respectively. Miceli said the GoA expected to collect an additional \$400 million from the export tax increase, which it will use to subsidize domestic consumption of wheat, corn and soy. The Minister explained that the subsidies will be channeled to a GoA agency (called AG Commercial Control agency), which will distribute funds to millers, dairy farmers and beef and poultry producers, as a means to avoid increases in the price of flour, bread, pasta, and dairy products. She argued that increases in international commodity prices had increased the cost of products included in the basic food basket. The announcement was not a surprise, since rumors of an export tax increase on soy or wheat have been circulating for the last month. This is one more attempt by the GoA to use heterodox

methods to keep inflation under control -- methods that have had at least temporary success, with inflation falling to single digits (9.8%) in 2006. Nevertheless, non-government Argentine economists are already forecasting a rougher time in 2007 -- beginning with at least a 1% m-o-m increase in the January 2007 CPI due to price increases for food, cigarettes, health care fees, taxis, tourism, and electricity (see below).

Planning Minister De Vido receives ARP 1.2 billion additional funds to subsidize energy and transportation.

¶5. On January 11, the GoA published two resolutions (1082 and 1083) in the Official Gazette amending the 2006 Budget. GoA Chief of Cabinet Alberto Angel Fernandez -- empowered by the "Superpowers" amendment to the Financial Administrative Law, which gives him discretionary authority to reconfigure the budget without Congressional approval -- is using these resolutions to redistribute ARP 1.2 billion to the Ministry of Planning -- led by powerful Minister (and President Kirchner's top advisor) Julio De Vido -- to fund additional subsidies for electricity (ARP 423 million) and transportation (ARP 554 million), as well as to finance housing projects (ARP 309 million). This is the GoA's first action in 2007 to use its control over the budget to finance expenditures that will win votes in the October election.

Energy

GoA allows 15% electricity tariff increase for commercial and industrial users.

¶6. On January 8, the GoA published in the Official Gazette two decrees (1957 and 1959) allowing two distribution companies (Edenor and Edesur) to implement a 15% electricity tariff increase on commercial and industrial users that had been agreed on over a year ago. The tariff increase, which will affect 600,000 users, will be retroactive to November 2005. The GoA had earlier authorized GasBan (the gas distribution company controlled by Spain's Gas Natural) to increase gas tariffs by an average 17% for commercial and industrial

users in April 2006. Increases to residential users will not be introduced until 2008, which was expected given the presidential election in October; however, consumers may be indirectly be affected by the increases since companies will likely attempt to pass-through the increased costs to consumers. (Note: Edenor and Edesur jointly provide energy to 3.7 million residential users.)

17. To see more Buenos Aires reporting, visit our classified website at: <http://www.state.sgov.gov/p/wha/buenosaires>

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